

## Message Text

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C O N F I D E N T I A L STATE 200774

EXDIS

E.O. 11652: GDS

TAGS: ENRG, CH, US, HK

SUBJECT: PROPOSED FLOUR REFINERY COMPLEX

REFS: A) HONG KONG 8431

B) HONG KONG 8333

HONG KONG FOR CROSS.

1. FLUOR REPRESENTATIVES EWERT AND WUHRMAN, TOGETHER WITH HARNED HOOSE, HAVE BEEN IN WASHINGTON FOR ABOUT THREE WEEKS. DEPARTMENT AND NSC AGREED THAT EA/PRCM WOULD BE MAIN POINT OF CONTACT FOR FLUOR GROUP. THEY HAVE BEEN KNOCKING ON MANY DOORS, HOWEVER, AND SUCCEEDED IN SEEING CIEP AND DOD/ISA OFFICIALS AS WELL. DEPARTMENT OFFICERS MET WITH FLUOR GROUP TWICE, AND THERE WERE SEVERAL TELEPHONE CONVERSATIONS. MEMCONS ARE BEING POUCHED, TOGETHER  
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WITH A DETAILED REPORT ON THE PROJECT PREPARED BY HOOSE.

2. IN CONVERSATIONS WITH PRCM, THE FLUOR REPRESENTATIVES

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AND HOOSE EXPANDED AT GREAT LENGTH ON THE PROJECT. WE

BELIEVE YOU ARE FAMILIAR WITH MAIN POINTS. ACCORDING TO FLUOR, THE NEXT STEP IS TO CONDUCT A FULL-SCALE FEASIBILITY STUDY, COSTING IN THE NEIGHBORHOOD OF \$2-3 MILLION (THE CHINESE WOULD HAVE TO PAY FOR THIS). THE STUDY WOULD TAKE

AT LEAST SIX MONTHS TO COMPLETE; MORE TIME WOULD BE REQUIRED IF THE CHINESE REQUESTED MANY OPTIONS TO THE BASIC PROPOSAL. THE FLUOR TEAM PLANS TO RETURN TO HONG KONG ABOUT AUGUST 26 TO RESUME NEGOTIATIONS, HOPEFULLY LEADING TO AGREEMENT TO START THE FEASIBILITY STUDY.

3. WHILE HOOSE HAS BEEN IN WASHINGTON, HE TOLD US HE HAD RECEIVED A NUMBER OF CALLS FROM LI PEI-CHU, FIRST FROM CANTON AND LATER FROM HONG KONG. DURING THE FIRST CALL, HOOSE BROACHED THE POSSIBILITY THAT THE USG MIGHT WISH TO DISCUSS THE PROJECT WITH THE PRC ON AN OFFICIAL LEVEL. LI SEEMED DISTURBED AT THIS SUGGESTION. HE SAID THE PROJECT HAD HIGH-LEVEL PRC APPROVAL, BUT MIDDLE AND LOWER LEVELS WERE NOT INFORMED, AND THERE WERE SOME OPPONENTS IN THE GOVERNMENT HIERARCHY. THEREFORE, PREMATURE DISCUSSION AT LESS THAN THE MOST AUTHORITATIVE LEVELS COULD JEOPARDIZE THE PROJECT. LI LATER INFORMED HOOSE THAT THE CHINESE INTEND TO HAVE TENG HSIAO-PING BRING SUBJECT UP WITH THE SECRETARY DURING HIS NEXT TRIP. DURING OUR MOST RECENT (AUGUST 14) MEETING WITH FLUOR/HOOSE, HOWEVER, HOOSE SAID LI TOLD HIM THAT USG COULD NOW INITIATE AN INQUIRY ABOUT THE PROJECT TO TENG HSIAO-PING DIRECTLY, PROVIDED THAT IT IS DONE BY GEORGE BUSH OR THE SECRETARY, AND THAT TENG WOULD CONFIRM PRC INTEREST IN THE PROJECT. WE HAVE TOLD HOOSE THAT THE DECISION HAS BEEN REACHED THAT IT WOULD NOT BE APPROPRIATE FOR BUSH TO CONTACT TENG ON THIS SUBJECT, BUT THAT IF THE PRC WISHED TO CONTACT US OFFICIALLY AT ANY LEVEL, EITHER IN PEKING OR WASHINGTON, WE WOULD OF COURSE RESPOND TO THEIR INITIATIVE.

4. FLUOR REPRESENTATIVES REQUESTED A USG LETTER OF CONFIDENTIAL

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SUPPORT FOR THE PROJECT. THEY ARGUED THAT A LETTER AT THIS TIME WOULD BE USEFUL TO CONVINCE THE CHINESE AND OTHERS THAT THEY HAVE KEPT US INFORMED AND THAT USG WAS NOT OPPOSED TO PROJECT. AFTER DUE CONSIDERATION, WE RESPONDED THAT WE FELT SUCH A LETTER WAS NOT ADVISABLE AT THIS POINT, BUT IF FLUOR LATER FELT THAT A USG LETTER WAS CRITICAL, THEY COULD BE BACK IN TOUCH WITH US.

5. HOOSE ALSO ATTEMPTED (UNSUCCESSFULLY) TO TRANSMIT HIS "SECRET MESSAGE FOR THE PRESIDENT" DIRECTLY TO GENERAL SCOWCROFT. CONTENTS OF THE MESSAGE, WHICH HOOSE PORTRAYS AS A YEH CHIEN-YING-AUTHORIZED TRIAL BALLOON CONCERNING THE TAIWAN ISSUE (COUCHED IN HOOSIAN-STYLE

VERBIAGE), CAN ONLY BE DESCRIBED AS FAR-FETCHED. WE TOLD HOOSE THERE ARE AUTHORITATIVE OFFICIAL CHANNELS WHICH THE CHINESE CAN USE TO PASS TO US ANYTHING THEY

WISH US TO KNOW, AND THAT IT WOULD BE IN THE US INTEREST, AND PERHAPS HIS AS WELL, IF HE DROPPED THE MATTER.

6. AS CAN BE SEEN FROM THE ABOVE, WE MADE NO COMMITMENTS TO FLUOR/HOOSE. WE DID NOT DISCOURAGE THEM, HOWEVER, FROM CONTINUING THEIR DISCUSSIONS IN HONG KONG, AND WE ENCOURAGED THEM TO STAY IN TOUCH WITH US. OUR UNWILLINGNESS TO BE MORE RESPONSIVE AT THIS TIME IS DUE PRIMARILY TO OUR UNCERTAINTIES OVER THE BACKGROUND OF THE HK PARTICIPANTS AND THE RELIABILITY OF THE ALLEGED "POLITICAL CHANNEL" PLUS RELUCTANCE TO GIVE HOOSE AMMUNITION WHICH HE COULD EXPLOIT WITH THE CHINESE, RATHER THAN BY OBJECTIONS TO THE PROJECT PER SE AS IT HAS BEEN DESCRIBED TO US. (INCIDENTALLY, FLUOR OFFICIALS SEEM QUITE CONVINCED OF THE VALIDITY OF THE MESSAGES THEY HAVE BEEN RECEIVING REGARDING THE PROJECT ITSELF). UP TO NOW, MUCH OF THE IMPETUS SEEMS TO BE COMING FROM THE FLUOR SIDE, BUT WE SUSPECT THAT THE ACID TEST OF CHINESE INTENTIONS MAY NOT BE FAR DOWN THE ROAD.

7. ABOVE WAS DRAFTED BEFORE RECEIPT OF HONG KONG 9669. WE HAD TOLD FLUOR THAT WE WOULD LIKE TO DISCUSS PROJECT WITH THE HONG KONG AUTHORITIES, AND INTENDED TO INSTRUCT YOU TO DO SO AFTER COORDINATING TIMING WITH CONFIDENTIAL

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FLUOR TEAM. HOWEVER, WE HAVE NO PROBLEM WITH POINTS YOU MADE TO GOVERNOR MACLEHOSE. FLUOR REPS. HAD GIVEN US THE IMPRESSION THAT HONG KONG OFFICIALS WERE ON BOARD (E.G., HAD ALLOCATED LAND, ETC. FOR THE PROJECT), ALTHOUGH THEY WERE A LITTLE "NERVOUS" AS TO WHETHER PEKING HAD IN FACT GIVEN ITS FULL BLESSING TO THE PROJECT. GOVERNOR'S COMMENTS TO YOU, HOWEVER, INDICATE THAT HKG AUTHORITIES MAY HAVE SOME SERIOUS RESERVATIONS. WE FEEL THAT HKG ATTITUDE IS AN IMPORTANT ELEMENT TO BE TAKEN INTO ACCOUNT IN ARRIVING AT USG POSITION. IF HKG HAS PROBLEMS, WE ARE INCLINED TO LET FLUOR/HOOSE SHOULDER THE MAIN BURDEN OF SELLING THE PROJECT TO THEM, WITH USG REMAINING NEUTRAL AT THIS STAGE. IF HKG OFFICIALS ASK FOR FURTHER ELABORATION OF US VIEWS, YOU SHOULD SAY THAT

WE HAVE NOT TAKEN A DEFINITIVE POSITION BECAUSE (A) THE DISCUSSIONS SEEM TO BE IN A TENTATIVE, PRELIMINARY STAGE; (B) FLUOR'S REQUEST FOR EXTREME CONFIDENTIALITY HAS PRECLUDED FULL VETTING OF PROJECT WITHIN THE USG; AND (C) THE CONCERNS EXPRESSED IN PARA. 6 ABOVE.

8. WE BELIEVE YOU SHARE OUR CONCERN ABOUT HOOSE'S

PROCLIVITY TOWARDS NAME-DROPPING AND EXAGGERATION. YOU SHOULD CONTINUE TO BE VERY CAREFUL TO HANDLE YOUR DEALINGS WITH HIM IN A WAY THAT MINIMIZES THE POSSIBILITY THAT HE WILL EXPLOIT THE CONTACTS.

9. WE WOULD APPRECIATE ANY BACKGROUND INFO IN CONGEN FILES ON HENRY FOK AND LI PEI-CHU POUCHED TO EA/PRCM (THERE SEEMS TO BE LITTLE AVAILABLE IN WASHINGTON.)

10. SLUG REPLIES TO THIS TELEGRAM FOR DEPARTMENT AND NSC ONLY. ROBINSON

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## Message Attributes

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